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THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS & ENERGY

Direct Testimony
of
Rod P. Nevi rauskas

In the Matter of the Revision of Rates

Filed by

Massachusetts-American Water Company
DTE _____

November 16, 2000

1) Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Rod P. Nevi rauskas and my business address is 500 Grove Street, Haddon Heights, New Jersey 08035.

2) Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by American Water Works Service Company, Inc. ("Service Company") as Director of Rates and Revenue of the Northeast Region Companies.

3) Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I am a graduate of the University of Massachusetts where I received a Bachelor's Degree in Economics.

4) Q. WHAT HAS BEEN YOUR BUSINESS EXPERIENCE?

A. On December 8, 1980, I was employed by American Water Works Service Company as a Rate Analyst. I was assigned to the Treasury Department in the New England Division. On December 1, 1981, I was promoted to Rate Analyst II and on July 1, 1983 to Revenue Requirement Specialist, responsible for the preparation and presentation of various water company rate filings. In August 1986, I was promoted to Business Manager of Hampton Water Works Company and transferred to Hampton, New Hampshire. In 1987, I was named Comptroller of the Company. In this capacity, I was responsible for many functions in the areas of accounting, customer billing, budgeting, finance, cash management and rate case preparation. On July 1, 1993, I was promoted to Director of Rates and Revenues of the New England Region to assume the responsibilities for the preparation and presentation of rate case filings for the American Water Works Company subsidiary companies located in Connecticut, New York, Massachusetts and New Hampshire.

On July 1, 1996, I was promoted to Vice President - Finance of the New England Region. In addition to rate case responsibility, I was responsible for the finance, cash management and budgeting functions. In July 1998, I transferred to Voorhees, New Jersey as Director of Rates in conjunction with the absorption of the Service Company responsibility of the New England Region Companies into the existing Region operated out of Voorhees. In April 2000, I was named Director of Rates for the newly formed Northeast Region companies. This Region includes subsidiary companies located in the states of New Jersey, Connecticut, New York, New Hampshire and the Commonwealth of Massachusetts. As Director of Rates and Assistant Treasurer for the Northeast Region companies, I am responsible for rate case filings for the seven operating subsidiaries that form the Northeast Region companies.

5) Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY AGENCIES?

A. Yes, I have testified on numerous occasions on behalf of Company rate filings and financings in the States of Massachusetts, Connecticut, Rhode Island, New Hampshire, New York, and Ohio.

6) Q. ARE YOU GENERALLY FAMILIAR WITH THE BOOKS AND RECORDS OF MASSACHUSETTS-AMERICAN WATER COMPANY?

A. Yes, I am.

7) Q. WHAT SYSTEM IS FOLLOWED IN KEEPING THE GENERAL BOOKS OF ACCOUNTS AND RELATED RECORDS OF MASSACHUSETTS-AMERICAN WATER COMPANY ("COMPANY" OR "MASS-AM")?

A. The general books of accounts and related records of the Company are kept in conformity with the Uniform System of Accounts for water companies.

8) Q. HAVE YOU PREPARED, OR CAUSED TO BE PREPARED, FINANCIAL EXHIBITS

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IN SUPPORT OF THE COMPANY'S APPLICATION TO INCREASE RATES?

A. Yes, I have. The Company has filed exhibits, which reflect its accounting and financial condition and which support the Company's petition for increased rates. The exhibits and schedules, which I am supporting with my direct testimony, were prepared by me or under my supervision and direction. These exhibits are Exhibit 1, Schedules 1, 2, 3 and 5; Exhibit 2, Schedules 1, 2, 8 through 18, 22, 23, 24, 26, 27 and 28; Exhibit 3; Exhibit 4, Schedule 5; and Exhibits 5 and 6. Applicable workpapers are numbered to coincide with the corresponding schedule.

9) Q. ARE THE EXHIBITS AS CURRENTLY FILED CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

A. Yes, they are.

10) Q. WHAT IS THE SOURCE OF THESE EXHIBITS?

A. The exhibits have been prepared utilizing the general books and records of the Company and other supporting data with a test year being established as twelve months ended June 2000. Since the purpose of rate making is to set rates to be applied in the future, recorded test year data has been adjusted on a pro forma basis, where appropriate, to reflect known and measurable changes in operating conditions which were not fully reflected in the test year results and which will continue to impact operations in the future. These adjustments will be explained in the following text.

11) Q. DO YOU HAVE ANY GENERAL COMMENTS REGARDING THIS FILING?

A. Yes. Many changes have taken place within Massachusetts-American Water Company since the Company last filed for a rate adjustment five years ago in 1995. Although senior management members are still employees of American Water Works Service Co., responsibility has been transferred from the New England Region of the Service Company to the Northeast Region companies in Haddon Heights, NJ, under the direction of Robert J. Gallo, President. The Company's workforce has been reduced from 41 employees in the last rate filing to 30 full time and 4 part-time employees in this rate case. Substantial capital expenditures have been incurred in most all areas of the system to improve supply and the quality of service. A significant portion of the additional revenue requested in this filing is a result of capital investment projects. The other major issue associated with this rate filing is the structure of the Company's rates. In connection with the renewal in 1999 of one of the Company's State Water Management Act water permits, negotiations with the Department of Environmental Protection resulted in an agreement between the Company, DES and the DTE regarding a conservation oriented rate structure. Details are included in the testimonies of Messrs. Tambini, Bossung and Alcott incorporated elsewhere in this filing.

The Company has prepared an extensive analysis regarding the reasonableness of Service Company expenses, supported by the testimony of Mr. Baryenbruch, an independent consultant that specializes in such analysis. The filing also contains updated cost levels for the Hingham Water Treatment Facility lease and operating costs.

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All of these factors, together with their respective impacts on the Company's overall revenue requirement, are addressed through the various testimony and supporting exhibits contained in this filing.

12) Q. ARE THERE ANY OTHER ITEMS OF DISCUSSION RELEVANT TO THIS CASE?

A. It is important to note that in 1998, the Company, together with key elected officials in the Hingham service territory, were successful in obtaining State Revolving Loan Fund (SRLF) grant money to assist in reducing the cost to customers of the Hingham Water Treatment Facility.

The surcharge credits on customer's bills are being made by Massachusetts-American Water Company through payments made to the Company by the Massachusetts Water Pollution Abatement Trust (the "Trust") pursuant to Section 22 of Chapter 78 of the Acts (the "Act") of 1998. The Act authorizes the Trust to provide financial assistance to eligible entities to meet debt service obligations on bonds incurred by such entities after January 1, 1992 to finance costs of water treatment projects which have been approved by the Department of Environmental Protection and completed on or prior to July 10, 1998.

The first two annual payments from the Trust to the Company were made prior to the start of the refund period. Therefore, the surcharge credit applied to customer bills during the first year of the program (1999) were approximately two (2) times the surcharge credit amount refunded during years two (2) through nine (9) of the program.

Currently, the Company's Hingham service territory customers receive approximately \$1.25 million per year in credits to their bills as a result of the SRLF. This results in a refund of about \$100 per year for a customer with a 5/8" meter with higher refund amounts credited to those customers with larger meter sizes. (Please refer to Massachusetts-American Water Company tariff MDTE No. 1 Original Sheet No. 8.) Assuming continued State funding, the Company will receive this money until 2007, which will be credited to customers until early in 2008. Due to the fact that the Company is merely a conduit to pass the SRLF money back to customers, the refund amounts are not addressed in this filing. Keep in mind that the level of revenue per Hingham service territory customer requested in this filing is actually offset from \$100 to \$728 (for a 6" meter) per year through the SRLF credit on customer's bills.

13) Q. PLEASE CONTINUE.

A. The Company has also identified funds that represent excess financing proceeds as a result of the financing associated with the Hingham Water Treatment Facility. Bonds were sold in the amount of \$37,700,000, and equity was infused from American Water Works Company in the amount of \$5,653,747, for a total amount of \$43,353,747. Approximately \$1.5 million has been determined to represent financing proceeds that

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were not invested in the treatment facility, and as such, are available to redeem outstanding bonds, thus reducing the debt service obligation. As a result, the surcharge amounts paid by the Company's ratepayers for the treatment facility will decrease. Redemption of the bonds is subject to a re-affirmation by the bond rating agency, which cannot take place until a decision is rendered with respect to the pending rate case appeal by the Supreme Judicial Court (SJC). Should a favorable decision be rendered, one with no measurable impact on the Decision rendered in DPU 95-118, the bonds can be re-affirmed by the rating agency and any unused funds will be available for bond redemption. Oral arguments in front of the SJC, associated with the rate case appeal, were heard on September 11, 2000. A Decision by the SJC is expected early in 2001. Should the Decision favor the DPU Order, the bonds will be re-affirmed, and the Company will reflect any applicable redemptions and subsequent decreased facility lease payments in rates prior to the final decision in this case.

Massachusetts-American Water Company continues to commit to providing a safe adequate supply to its customers at the lowest cost possible consistent with a fair return to its shareholders. As a result of this commitment, which translates to the continued investment in new and replacement infrastructure as well as the ability to attract capital, the Company finds it necessary to request a rate adjustment at this time, the first in five years. As a way of demonstrating this need in quantitative terms, the Company's earned return on pro forma rate base at present rates is 3.94%.

14) Q. PLEASE DISCUSS THE STRUCTURE OF THIS CASE.

A. The structure of this rate case is based upon the test year ended June 30, 2000 with adjustments for post-test year additions to rate base through May 2001 and of changes in expense levels through the period ending at the first six months that rates become effective. The Company began by analyzing the revenues and expenses for the test year and made pro forma adjustments to actual test year revenues to reflect the expected impact on water sales for the implementation of conservation-based rates, resulting in the elimination of the "tail blocks" in the Company's current rate structure. Actual test year expenses were used to reflect, among other things, changes in union contract rates, group insurance, pensions and Other Post-Retirement Employee Benefits (OPEB), and the impact of plant additions including Accord Pond Dam Improvements. The rate base at June 30, 2000 includes those items of capital investment that will be completed and in service by May 31, 2001. The pro forma rate base reflects approximately \$8 million of additional utility plant in service over the level included for ratemaking purposes in DPU 95-118 dated May 31, 1996.

15) Q. WILL ALL OF THE PRO FORMA ADJUSTMENTS TO OPERATING EXPENSES AND RATE BASE BE KNOWN BY THE TIME RATES GO INTO EFFECT IN THIS CASE?

A. Yes, they will. The effective date of rates in this case is expected to be on or about June 1, 2001, which fairly coincides with the pro forma period of May 31, 2001 for capital projects and expenses that will be in effect during the first six months the new rates will be in effect.

16) Q. WHAT ARE THE OVERALL RESULTS SHOWN ON THESE EXHIBITS?

A. The total effect of the pro forma adjustments on the operations of the Company results in a required revenue increase of \$1,787,605. The increase in rates proposed to correct this deficiency is 16% on the Company as a whole. The Company is also submitting updated costs associated with the recovery of the investment in the

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Hingham Water Treatment Facility. Annual operating lease costs will be \$3,290,533. Costs associated with the operation of the plant are \$982,052. (See Exhibit 3.) These costs will be apportioned to the Hingham and Hull ratepayers only.

17) Q. PLEASE EXPLAIN EXHIBIT 1, SCHEDULE 1 "BALANCE SHEET - AS OF JUNE 30, 2000."

A. The Exhibit marked as Schedule 1 sets forth the assets and other debits and liabilities and other credits of the Company as of June 30, 2000. These statements were compiled directly from the books and records of the Company.

18) Q. PLEASE EXPLAIN SCHEDULE 2, "STATEMENT OF PLANT INVESTMENT."

A. Schedule 2 sets forth the total original cost of all property owned by the Company as of June 30, 2000, detailed by primary account.

19) Q. PLEASE EXPLAIN SCHEDULE 3, ENTITLED "STATEMENT OF INCOME, TWELVE MONTHS ENDED JUNE 30, 2000."

A. This exhibit sets forth the income accounts of the Company for the test period, including operating revenues, operating expenses, non-operating income, gross income, and the balance available to proprietary capital including common stock.

20) Q. PLEASE EXPLAIN SCHEDULE 5, ENTITLED "STATEMENT OF OPERATING EXPENSES, YEAR ENDED JUNE 30, 2000."

A. Schedule 5 sets forth a breakdown of the operating expenses for the twelve months ended June 30, 2000 by the expense classifications prescribed under the Uniform System of Accounts.

21) Q. PLEASE EXPLAIN EXHIBIT 2, SCHEDULE 1, ENTITLED "STATEMENT OF PRO FORMA INCOME AT PRESENT AND PROPOSED RATES."

A. This exhibit sets forth the Company's operations for the test year period, adjusted to show the pro forma results of a year's operations at present and at proposed rates.

Column 1 identifies supporting schedules, where applicable.

Column 2 is a restatement of Exhibit 1, Schedule 3 and includes a subdivision of taxes into various categories as shown.

Column 3 reflects known and measurable adjustments made to the test year. These adjustments are explained on Exhibit 2, Schedules 3 through 28, Exhibits 3, 4 and 5 as well as in this testimony. Column 4 sets forth the pro forma results at present rates.

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Columns 5 and 6 of this page show the adjustments and results associated with the proposed rate increase, adjusting for income taxes and uncollectible operating revenues.

22) Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE TO DEDUCTIONS FROM GROSS INCOME, AS SHOWN ON SCHEDULE 1.

A. These adjustments have been made in order to properly calculate taxable income for ratemaking purposes. Interest on Long-Term Debt and Miscellaneous Interest Deductions have been adjusted so that the pro forma interest expense will equal the pro forma weighted cost of debt times the pro forma rate base.

The allowance for funds used during construction has been removed for pro forma purposes.

23) Q. PLEASE EXPLAIN SCHEDULE 2, "SUMMARY OF PRO FORMA ADJUSTMENTS TO OPERATING EXPENSES."

A. Schedule 2 summarizes the known and measurable adjustments, which either increase or decrease operation and maintenance expenses as recorded during the twelve months ended June 30, 2000. The adjustments associated with the facility lease cost and related operating expenses of the Hingham Water Treatment Facility (HWTF) on Exhibit 3, Schedules 1 and 2 have been excluded for identification purposes.

24) Q. PLEASE EXPLAIN SCHEDULE 8, ADJUSTMENT TO "CHEMICAL COSTS."

A. This schedule shows the actual current chemical contract prices times the actual test year usage, excluding chemicals used at the HWTF that are included in the adjustment reflected on Exhibit 3, Schedule 2. An adjustment has been made to include a decrease in expense for the effect of conservation rates on usage.

25) Q. PLEASE EXPLAIN SCHEDULE 9, "RATE CASE EXPENSE."

A. The Company is requesting a four-year normalization of the costs associated with the preparation and presentation of the instant filing. The four-year period is consistent with the average interval regarding the Company's last four rate filings in 1988, 1990, 1995 and 2000.

26) Q. PLEASE EXPLAIN SCHEDULE 10, "LEASED VEHICLES."

A. This adjustment provides for the cost of leasing 3 vehicles throughout an entire year at current monthly lease costs. This schedule reflects a significant reduction in cost due to the fact that the Company has begun to purchase vehicles instead of leasing. Earlier in the year 2000, approximately \$40,000 was expended to purchase 11 leased vehicles from the then-current fleet of vehicles whose leases had expired or were about to expire. This capital expenditure has been included in rate base. In

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addition, as the 11 vehicles purchased were all 4 or more years of age, \$100,000 has also been included to purchase 4 vehicles in 2001 to replace the vehicles purchased in 2000 whose useful life has expired. The overall cost to the ratepayer for vehicles included in this case is significantly less than if the Company had replaced its leased vehicles that were four or more years old with new leased vehicles.

27) Q. PLEASE DESCRIBE THE ADJUSTMENT ON SCHEDULE 11, "WELL MAINTENANCE."

A. In accordance with the Department's normalization policy concerning recurring maintenance of facilities, the Company is proposing various intervals for normalization purposes based on the actual interval between redevelopments. The pro forma costs were arrived at by applying the actual cost of the prior maintenance of each facility for those wells not yet fully amortized. Regarding those wells that are fully amortized, the average cost of the five most recent actual redevelopment costs were used for pro forma purposes.

28) Q. IS THE METHODOLOGY USED IN THE ADJUSTMENT ON SCHEDULE 12 SIMILAR TO THE PRIOR ADJUSTMENT?

A. Yes, it is. The actual annual unamortized cost of the Strawberry Hill Tank, Turkey Hill Tank and the Accord Pond Tank were used for normalization purposes. The cost of the North Main Street Tank in Oxford is based on the engineering estimate for the painting (see workpapers).

29) Q. WOULD YOU PLEASE EXPLAIN THE COMPANY'S PRO FORMA INSURANCE OTHER THAN GROUP EXPENSE, SCHEDULE 13?

A. The pro forma level of Property and General Liability Insurance was determined using an estimate of the fiscal year 2001 costs. This adjustment will be updated when actual costs are known, which is expected to be in December 2000.

30) Q. WHAT IS THE NATURE OF THE ADJUSTMENTS ON SCHEDULE 14, "AMORTIZATION OF DEPRECIATION STUDY" AND SCHEDULE 15, "AMORTIZATION OF COST OF SERVICE STUDY"?

A. Since 1958 (at least), the Company has essentially been using a composite 1.50% overall rate to calculate depreciation expense. A depreciation study was performed by the firm of Gannett Fleming, Inc. to better identify individual service lives for different classes of plant and equipment. The great majority of the Company's plant in service has been placed in service since the last study was performed in 1958. Regarding the allocated cost of service, the implementation of conservation-based rates in this proceeding, consistent with the memorandum of understanding between the Company and the DEP requires that a study be performed consistent with the designation of appropriate rates among the various classes of service.

31) Q. SCHEDULE 16 REFLECTS A CHANGE TO SERVICE COMPANY CHARGES, PLEASE EXPLAIN.

A. Many changes have been made regarding management responsibility for Massachusetts-American Water Company. The New England Regional Office of the Service
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Company was essentially closed in 1998, with responsibility transferred to Voorhees, New Jersey as a part of a larger Regional group of operating companies that were spread over eleven states. In January 2000, a new region was created called the Northeast Region, comprising operating companies located in the states of New Jersey, New York, Connecticut, Massachusetts and New Hampshire, under the direction of Robert J. Gallo, President. Commensurate with the changes in service company responsibility, the overall employee level proposed in this case is 30 full time employees and 4 part-time employees. This is a reduction in eleven full time employees from the authorized level of 41 in the Company's last rate case.

The test year level of Service Company costs charged to operation and maintenance expense was \$832,168. From this amount, the Company has made two adjustments: First, test year costs have been reduced by \$16,377 to an over-allocation of charges attributable to the Company's Vice President/Manager and Executive Secretary. A book adjustment was made in the test year to re-allocate to Massachusetts-American, Service Company charges attributable to these two employees that had been erroneously charged to two sister companies of Massachusetts-American. Because the adjustment encompassed twelve months of correction, but only six months was directly attributable to the test year, this adjustment is being made to reduce pro forma costs.

The second adjustment in the amount of \$31,789 is being made to re-classify two Massachusetts-American employees that, for an approximate two-year period were classified as Service Company employees, performing services for other New England operating subsidiary companies as well as for Mass-Am. The Service Company expenses charged during the test year for these employees is being deducted for ratemaking purposes, as their salaries are reflected in the Company's adjustment for salaries and wages.

32) Q. HAVE YOU PROVIDED A COPY OF THE CURRENT SERVICE COMPANY CONTRACT?

A. Yes. A copy of the current contract is attached to this testimony as Exhibit RPN-1.

33) Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE SERVICE COMPANY.

A. The service company has a Regional office that provides certain management services to 7 operating companies, including Massachusetts-American. (Please see Baryenbruch testimony and exhibits.) In the Regional office, the Service Company maintains a staff of personnel qualified to perform specific functions or assist the operating companies. The following is a listing of the positions or departments overseeing the Regional Service Company operations:

- a. Regional Vice President
- a. Regional Manager of Financial Services
- a. Regional Manager of Operational Services
- a. Regional Comptroller
- a. Regional Counsel /Corporate Secretary

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- a. Rates and Revenue/Planning
- a. Treasury
- a. Engineering
- a. Water Quality
- a. Workplace Safety

34) Q. MR. NEVIRAUSKAS WOULD YOU ADDRESS THE EFFECT OF THE REORGANIZATION OF THE SERVICE COMPANY SINCE THE COMPANY'S LAST RATE ORDER?

A. The Service Company has essentially closed its New England office in Hingham, Massachusetts. Most of the services formerly provided at the New England office are currently being accomplished at the Haddon Heights, New Jersey Regional office.

35) Q. WHAT ARE THE FUNCTIONS AND SERVICES THAT THE REGIONAL SERVICE COMPANY PROVIDES TO MASS-AM?

A. The functions are Accounting, Administration, Communications, Human Resources, Information Systems, Operation, Rates and Revenues/Planning, Workplace Safety, Treasury, Corporate Secretarial, Water Quality and Engineering.

36) Q. WOULD YOU PLEASE DISCUSS THESE FUNCTIONS AND SERVICES THAT ARE PROVIDED BY THE REGIONAL SERVICE COMPANY.

A. Yes, I will. The functions and services are as follows:

REGIONAL OFFICE - HADDON HEIGHTS, NEW JERSEY

Regional Vice President - Robert J. Gallo

The Regional Vice President is the President of each of the Regional operating companies (including Massachusetts-American) and directs and guides the implementation of operating and financial policies established by the Board of Directors for each operating company. The Regional Vice President is also charged with the day-to-day management, development and operation of Service Company departments and employees assigned within the Regional office.

The Regional Vice President is responsible for the attainment of all objectives established for the Region and of the operating companies assigned. He is also a member of the Board of Directors for each operating company in the Region.

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Regional Manager of Financial Services - Vacant

The Regional Manager of Financial Services assists the Regional Vice President in directing the financial activities and business function of each operating company assigned to the Region and the day-to-day management, development and operation of the office and personnel engaged in the financial and business functions of the Service Company. The Regional Manager of Financial Services is also the Vice President and Treasurer of each of the Regional operating companies.

Specific functional responsibilities of the Manager of Financial services are Rates and Revenues/Planning, Regulatory Studies, and Treasury.

Regional Counsel /Corporate Secretary - Michael Sgro

The Regional Counsel has the responsibility for the overall supervision of all phases of Corporate affairs including, but not limited to the following:

1. Prepares or reviews and files, as necessary, documents before administrative agencies

on behalf of operating companies.

2. Assists in the preparation, with other officers, of offering circulars and the necessary

legal documentation relating to the issuance of securities by the operating companies.

3. Serves as Corporate Secretary of operating companies assigned to the Region and prepares minutes, agendas, and other notices in connection with meetings of the Board of Directors.

4. Arranges for the filing and retention of all permanent Corporate records of operating companies.

5. Researches and interprets Corporate records of operating companies, including their

charters, bylaws and franchises.

6. Acts as custodian of the seal of the corporation; affixes the Corporate seal and attests,

signs or countersigns Corporate documents as authorized.

7. Provides answers to, and guidance upon, general questions of law posed by the officers and managers of the operating companies.

8. Reviews new developments and relevant laws and legal issues and brings them to the

attention of the officers and managers of the operating companies.

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9. Acts as Legal Counsel in certain lawsuits, contract reviews, real estate matters, environmental permits, human resource issues, administrative proceedings, and other general Corporate and public utility legal work.
10. Undertakes special assignments upon the request of the Regional Vice President and Boards of Directors of operating companies.
11. Coordinates and assists outside Counsel in matters of litigation and in other Corporate matters.
12. Tracks litigation and minimizes outside legal expense.

Regional Manager Operating Services - Karl Kyri ss

The Regional Manager of Operating Services assists the Regional Vice President in the management of each operating company assigned to the Region and the day to day management, development and operation of the operating companies within the Region including, but not limited to, the following:

- 37) Directs engineering, water quality and workplace safety within the Regional office.
- 38) Serves as one member, representing the Regional Companies, of the five member Materials Management Committee of the American System. This Committee utilizes the mass purchasing power and the technical expertise in the American System to obtain the best products for the least cost for American's operating companies.
- 39) Reviews operating company compliance with American System Operations Manual and recommends changes requested by the operating companies for submission to the American Water Works Service Company Board.
- 40) Executes contracts. Annually reviews chemical bids and executes contracts prepared by the Director of Water Quality for chemicals used by the operating companies for water treatment.
- 41) Reviews investment budget, operating budget, and Strategic Business Plan (five-year plan) annually to insure compliance with procedures. If cost savings are realized at an operating company, other companies in the Region are provided with this information for their use.
- 42) Presents operation reports and investment budget status on a quarterly basis for each of the operating companies in the Region to its respective Board of Directors. Investment Budget is presented to the Board of Directors annually (October) for the following year.

Comptroller - Allen H. Baumgarner

The Comptroller is responsible for the attainment of accounting objectives of the operating companies as established from time to time including, but not limited to, the following:

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1. Assures compliance with Corporate policies relating to accounting procedures and reports including general accounting, payroll, customer accounts receivable, property taxes and continuing property records.
2. Supervises the maintenance of general ledger including the preparation of operating and financial statements.
3. Conducts special accounting studies, analysis and cost studies including the verification of pension calculations.
4. Maintains prepaid and accrued insurance and tax records.
5. Supervises preparation of monthly, quarterly and annual accounting and financial reports.
6. Maintains internal audit and control programs.
7. Supervises preparation of data required by and reported to various taxing authorities and regulatory commission.

The Accounting Department prepares monthly financial statements and reports, maintains property records, prepares periodic reports and files federal, state and local tax returns as required.

The Comptroller also serves as Vice President and Comptroller for each of the Regional operating companies.

43) Q. MR. NEVIRAUSKAS, WOULD YOU DISCUSS THE TREASURY AND RATES AND REVENUE PLANNING FUNCTIONS THAT FALL UNDER THE RESPONSIBILITY OF THE MANAGER OF FINANCIAL SERVICES?

A. Yes.

Treasury - Mark Chierici

Services are provided under the direction of the Director of Finance for the preparation of financial statements and other necessary papers for the implementation of financing programs, the sale of securities and the establishment of credit lines with banks. The Director of Finance assists the operating companies in cash management and prepares reports and replies to inquiries made by security holders.

Rates and Revenue - Rod Nevi rauskas

The Director of Rates and Revenues directs the management, development and operation of the office and personnel engaged in the preparation of rate applications and other related matters for the operating companies assigned to the Region.

I am responsible for the preparation of the financial and economic aspects of rate increase applications commensurate with the financial objectives established for the operating companies assigned to the Region including, but not limited to, the following:

1. Supervise and coordinate the preparation of applications in regulatory proceedings including supporting documents and exhibits as prescribed by management

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policies and respective regulatory commissions.

2. Testify before regulatory commissions on various regulatory applications, as required.
3. Maintain communications with staff members of regulatory commissions and agencies.
4. Review operating companies' financial statements and reports and supervise rate analysis thereof including recommendations for rate applications.
5. Make studies relating to the impact proposed rates will have on the revenues, rate of return and the tariff structure of the operating company involved.
6. Supervise and coordinate the implementation of regulatory orders including the development of tariff pricing to produce the authorized revenue.

The Director of Rates and Revenues is also responsible for the development of budget procedure objectives of the operating companies including the following:

1. Assists the operating companies in the preparation of operations, maintenance and capital budgets.
2. Reviews budget and actual revenues, operating, maintenance and capital expenditures and make recommendations regularly to assure continuing compliance. Meets regularly with department personnel for in-depth review of actual versus planned expenditures and makes recommendations, if necessary, to bring expenditures in line with budgeted plans.
3. Develops methods and procedures for continuous monitoring of actual expenditures to budgets.
4. Reviews the budget preparation procedure annually and refines budget techniques to reflect economic trends and to develop more accurate forecasting for succeeding years.

The Director of Rates and Revenues also serves as Assistant Treasurer to each of the Regional operating companies.

44) Q. IS IT CORRECT THAT THE FINANCE FUNCTION IN THE AMERICAN WATER SYSTEM IS A COORDINATED EFFORT BETWEEN MASS-AM, THE SERVICE COMPANY AND AMERICAN WATER CAPITAL CORPORATION?

A. Yes, it is. As the DTE is aware, Mass-Am obtains its short-term line of credit from American Water Works Capital Corp. (AWCC), at interest rates that are less than those obtained from individual lending institutions. Long-term financings are now being provided through AWCC. Currently, cash management and the budgeting support are being performed at the operating company level, with guidance on implementation and policy being established at the Region office. Cash management responsibility will ultimately be the responsibility of AWCC.

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45) Q. MR. NEVIRASKAS, PLEASE CONTINUE WITH THE ENGINEERING, WATER QUALITY, WORKPLACE SAFETY AND DATA PROCESSING.

A. Engineering - Steve Tambini

The Director of Engineering, who reports to the Manager of Operating Services, performs engineering assignments related to the planning, development, design and maintenance of water supply, treatment and distribution facilities.

The Director of Engineering is responsible for the attainment of engineering objectives and implementation of the capital improvement program, including but not limited to, the following:

1. Investigations, studies, tests, planning, evaluation, design and estimates relative to

proposed construction, renovation and maintenance of source of supply, production and distribution system facilities and equipment to improve operating performance and otherwise promote cost reductions and a high level of efficiency.

2. Inspection of construction, renovation and maintenance projects for production and distribution system facilities and equipment.

3. Engineering analysis, testing and evaluation of operations equipment to assure an adequate supply, water quality and customer services.

4. Performance of preliminary studies and investigations to determine feasibility of improvements to water distribution facilities.

5. Preparation and maintenance of files, records, drawings, reports and other data essential to the performance of these responsibilities.

6. Communication of technical and engineering policies, procedures and industry practices to the operating companies.

The Director of Engineering visits the facilities of the operating companies and makes recommendations as to the operation, maintenance, improvement and additions to the water company's facilities.

Water Quality - Kevin Dixon

The Director - Water Quality Control, who also reports to the Manager of Operating Services, assists and advises management personnel of the operating companies engaged in maintaining water quality control. The Director - Water Quality is responsible for assisting in the attainment of objectives from time to time established by the operating companies that relate to water quality control including, but not limited to, the following:

1. Performs assignments related to the development of water and waste treatment design criteria and processes.

2. Reviews water treatment operations and provides guidance for the same.

3. Assists in providing liaison with personnel in public and governmental agencies.

4. Supplies technical data and assists in evaluation and selection of equipment.

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5. Disseminates information enabling the operating companies to stay current with changing technologies and regulations.
6. Advises on laboratory and process quality control measures.
7. Prepares specifications, obtains bids and prepares contracts for chemical purchases of the operating companies in the Region.

Workplace Safety/Loss Control - Frank Birmingham

The Director of Workplace Safety/Loss Control plans, organizes and directs the Risk Management programs of the Service Company and each operating company assigned to the Region. The Director of Workplace Safety has the responsibility to make recommendations and to assist managerial personnel in their attainment of objectives, which relate to the conservation of assets and earning power including, but not limited to, the following:

1. Controls risk and loss through the preparation and recommendation of effective and efficient programs designed to avoid or minimize risk and loss and provide safety and security.
2. Conduct and/or assists with in-company inspections for compliance with established Risk Management programs.
3. Administers property and casualty insurance, including claims.
4. Prepares, files and maintains all required reports and records relating to risk management, including safety, insurance and Federal/State OSHA rules and regulations and similar laws.
5. Serves as a member of the System Risk Management Committee. This Committee develops policies and procedures to address all aspects of the Risk Management program including employee and public health & safety, security, insurance and claims.

Human Resources - Mike Petrelli

The Regional and Corporate Human Resources staff develops and coordinates policies and programs in the areas of employment, labor relations, salary administration, training and development, employee benefits, educational assistance, and service awards. A Human Resource Policy and Procedure Manual has been developed and is maintained to insure uniformity of application of these programs at each individual company. The Regional office coordinates input from operating company Vice Presidents when making recommendations for Human Resources policy changes.

Regional and Corporate staff maintains a level of expertise in areas such as performance evaluation, position description preparation, medical cost reduction and required governmental programs to assure fair treatment of all employees and to keep costs at a reasonable minimum. Corporate staff also receives information from and monitors human resource programs at the operating companies. The staff disseminates information to Regional and local human resource personnel on the most effective approaches to problems.

Management and Leadership skills workshops are developed and facilitated at the Regional training center by Personnel Development staff. These programs are intended to enhance management effectiveness, and give operating companies trained managers

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capable of implementing efficiencies within their area of responsibility.

Corporate staff stays abreast of new legislative requirements and the most efficient implementation methods.

Corporate staff advises management regarding all of the above, to keep them abreast of all human resource issues.

Human Resources - Massachusetts-American

Massachusetts-American Water Company does not have a Human Resource professional on its staff. However, there is a Human Resource employee of the Service Company that is located at the Connecticut-American office that performs services for the five New England operating companies, including Connecticut-American, New York-American, Massachusetts-American, Hampton Water Works Co. and Salisbury Water Supply Co. Her time is apportioned to each company on an as-needed basis.

The Human Resources person is responsible for the following:

1. Administers local aspects of employee benefit programs including group insurance, pension, 401(k), ESOP, educational assistance, and training.
2. Provides assistance for collective bargaining efforts including the grievance program and job bidding.
3. Assists in all recruiting and staffing matters.
4. Maintains personnel files and records for all bargaining and non-bargaining employees.
5. Prepares, files and maintains all documents, reports and records within area of responsibility.
6. Administers Employee orientation programs.

Government Affairs/Corporate Communications - Lendel Jones

The Director of Government Affairs/Corporate Communications provides assistance and advice on Company communications with the public, the media, federal, state, and local governments as well as state regulatory authorities.

1. She writes, edits and produces communication tools such as speeches, slide programs, newsletters, press releases, and special events.
2. She also maintains a library of news clippings, photos and historical documents as a company communications resource.
3. She develops and administers communication policies, programs, and activities.

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4. She supervises the publication of newsletters.
5. She monitors and provides input to positively influence proposed legislation and emerging issues that could affect the Company.
6. She directs the preparation and release of publicity in accordance with established policies. She handles inquiries from and maintains amiable relations with the press, radio, television, and other media. She also arranges and coordinates interviews involving company executives and media representatives.
7. She reviews and approves as requested, public statements and speeches, radio and television scripts and articles prepared by employees on behalf of the Company. She advises staff on communication research, polls, and surveys.
8. She provides guidance and assistance to the Vice President, Human Resources on employee communications regarding the Company and its activities and on other matters of general interest to employees.
9. She serves as a Corporate contact with organizations soliciting advertising on financial support for charitable or civic activities.
10. She arranges for executives to talk before local groups to inform them about the Company and its role in the community. She arranges for representation by Corporate executives on the boards of hospitals, charitable organizations, and on committees for community activities.
11. She provides public and community relations, advice and assistance to executives of the Company. She monitors, collects and circulates industry or Company related news stories and articles.

Data Processing Center - Located at Haddon Heights, New Jersey.

MIS provides billing, programming support, disaster recovery support, financial accounting systems, and technical support. The billing support function consists of calculating, printing, inserting, and mailing all of the water bills issued by the Company. MIS also provides the Company with a final edit of its water bills prior to mailing to insure that all bills are issued correctly.

MIS also is responsible for the purchase of supplies (e.g., envelopes and bill forms) and postage. The purchase of these supplies is based on the needs of all the operating companies served by MIS, including Massachusetts-American. By purchasing supplies for all the operating companies, MIS can obtain prices for these products that are less than Massachusetts-American could obtain on a stand-alone basis. MIS also uses programs to generate "Zip+4" zip codes to take advantage of savings offered by the Post Office. Moreover, MIS provides us with the ability to include inserts in our customer's bills.

In addition to these services, MIS provides computer programming support, which enables the Company to modify, troubleshoot, and fix existing programs. MIS also provides disaster recovery assistance. Employees of MIS can also perform daily functions required by the Company's computer systems on an emergency basis should the need arise. Services include nightly data processing and periodic closing operations to generate the Company's financial information.

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46) Q. DOES THE MIS DEPARTMENT PROVIDE ANY TECHNICAL SUPPORT?

A. Yes. Technical support is available, as needed, for LAN management, communications, hardware problems, equipment configuration and equipment acquisition. MIS also provides users with access to personnel who can solve problems users may encounter with the customer billing and financial accounting systems. On occasion, MIS offers training programs to assist users operating the computer systems.

47) Q. PLEASE DESCRIBE THE ENGINEERING FUNCTION AT THE CORPORATE CENTER IN VORHEES, NEW JERSEY.

A. The AWWSC Corporate Engineering Department is responsible for developing and implementing the most cost-effective and technically sound capital improvement program, which maintains the proper reliability and quality of service, for American System operating companies. This process begins with the development of a Comprehensive Planning Study for each operating company to analyze source of supply, production and distribution system adequacy and identify needed improvements. Recommended projects are developed in more detail during the design process with emphasis on appropriate use of technology, operating flexibility, current and future regulatory compliance, value engineering and construct ability. During the construction phase of a project, AWWSC engineers assume primary project management responsibility over construction inspection and quality control, budget schedule and facility start-up.

Because of the water works experience and expertise of its engineering staff and the number and size of projects completed, the AWWSC engineering department is a recognized leader in planning and technology within the water works industry. Our technical and operating input is frequently solicited by regulators, other engineering firms and professional organizations. The engineering department has also developed standard documents, technical and operating standards, and training programs to assure the operating companies can efficiently achieve their operating goals.

Proper water works engineering planning is a dynamic process which can only be successfully performed through a comprehensive analysis of all aspects of a utility's capital needs and operating goals. The cost-effective implementation of planning recommendations requires extensive technical knowledge combined with appreciation of operating efficiencies. The AWWSC multi disciplined engineering department is staffed to provide the proper technical and engineering management needs for a water utility while being a valuable resource to the entire water works profession.

The Service Company approach to engineering makes available, to the operating company, trained engineering specialists familiar with the plants and personnel while avoiding the occurrence of marketing expenses and the charging of a profit component to the operating company.

48) Q. MR. NEVIRAUSKAS, IS THERE A DUPLICATION OF THE ENGINEERING SERVICES BEING PROVIDED TO MASS-AM?

A. No. Massachusetts-American does not employ an engineer on staff.

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49) Q. PLEASE DESCRIBE THE WATER QUALITY FUNCTION AT THE CORPORATE CENTER IN VOORHEES, NEW JERSEY.

A. The Service Company provides a group of specialists in water quality research and testing at the Corporate Center. Water quality research and studies are conducted to address the many water treatment improvements needed in removing surface water and ground water contaminants. Under the Vice President of Water Quality, the AWWSC also maintains an EPA and state certified modern water testing laboratory in Belleville, Illinois. At this facility, state of the art water testing equipment is used to test water source water and finished waters from all the American System operating companies for microbial and radiological contaminants, metals, volatile organics, priority pollutants, pesticides, disinfection by-products and other regulated and non regulated contaminants.

The Corporate staff of water quality engineers and scientists stay abreast of current developments in water treatment technology and industry events like the recent Cryptosporidium problem that occurred in the City of Milwaukee water system. The Service Company staff and laboratory were called upon by the City of Milwaukee to assist in resolution of their Cryptosporidium problem.

This group also works closely with EPA and state water quality regulatory agencies to stay abreast of current developments in the regulatory area as well as to provide expert input into the process.

50) Q. MR. NEVIRAUSKAS, IS THERE A DUPLICATION OF THE WATER QUALITY FUNCTION BEING PROVIDED TO MASS-AM?

A. No. The Water Quality Superintendent at Mass-Am is responsible for monitoring water quality testing and reporting and compliance with water quality policies and procedures.

The Water Quality function at the Corporate Center in Voorhees is responsible for water quality testing and research to address water treatment improvements needed at American System operating companies. In addition, the EPA and State certified laboratory in Belleville, Illinois reports to the Vice President of Water Quality at the Corporate Center.

51) Q. WHAT ACCOUNTING AND INTERNAL AUDITING SERVICES DOES THE CORPORATE OFFICE PROVIDE TO MASSACHUSETTS-AMERICAN?

A. The Corporate office accounting staff, in Voorhees, NJ, provides support, guidance and coordination in the preparation of financial statements and tax returns for the operating companies and the Region, so they conform fully to generally accepted accounting principles and tax regulations.

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The Corporate staff also reviews monthly financial reports, annual reports and other reports to stockholders and to any governmental authorities. It reviews accounting procedures, methods, and forms and maintains accounting records as requested by the operating companies. It advises and assists in the establishment and maintenance of current record-keeping techniques and evaluates systems of internal control for receipt and disbursements of funds, materials and supplies and other assets.

The Corporate office accounting staff researches and interprets accounting pronouncements and/or dictates of such regulatory agencies as the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB) and the Internal Revenue Service (IRS).

Whenever there is a need to research an accounting issue, the Corporate accounting staff, in addition to its own resources, has immediate access to the partners and managers of the Company's independent auditors who certify the financial statements of the operating companies, and upon determination of proper accounting, which complies with GAAP, IRS and other requirements are able to disseminate a uniform accounting application for the American System.

The staff prepares the consolidated federal income tax return and assists in the preparation of state and local tax returns for and to the extent required by the operating companies. Private letter rulings directed to the IRS are coordinated by this staff as well. The Corporate office also is responsible for the software used for tax return and depreciation.

The Corporate staff coordinates accounting and budgeting for the Service Company. The Service Company's financial statements, bills and payroll are prepared at the Corporate office.

The Corporate office Internal Auditing Department periodically performs internal audits of the operating companies. These audits focus on internal controls as well as other areas of accounting.

The benefits of having a talent pool with expertise and experience in water utility accounting are many. This approach provides the assurance that all proper accounting procedures, methods and forms are being used by operating company accounting personnel. Probability of loss of funds, materials, and supplies and other assets are minimized due to the controls established and reviewed by Corporate accounting personnel. Taxes are minimized with the aid of tax experts on the Corporate accounting staff. The least cost approach to implementing FASB requirements and new legislative requirements is assured through the Service Company approach.

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The possibility of providing unnecessary services is reduced due to the familiarity with the industry, its accounting practices for the industry and a thorough knowledge of all the operating companies in the American System.

52) Q. WHAT IS THE BASIS FOR SERVICE COMPANY BILLING?

A. All services provided by the Service Company are billed at actual cost to the Company for which the services are performed. There is no profit built into charges to operating

companies.

53) Q. HOW ARE THEY DETERMINED?

A. Pursuant to the terms of the service contract, charges are determined in two ways. First, the employees of the Service Company submit time sheets showing the actual number of hours worked exclusively for each operating company ("direct charges"). Second, time charges which are not charged directly to an operating company are charged to groups of companies by applying the formula set forth in the contract ("non-direct charges"). The formula is based upon the number of customers of each operating company at the end of the preceding year. In both cases, the number of hours for each employee's services is multiplied by the individual employee's hourly rate. In addition to the employee's direct and non-direct labor charges, costs related to support personnel such as secretaries, clerks, telephone operators and mailroom clerks are also recovered from the operating companies. These costs, as well as the cost associated with leasing office space and equipment (lease payments, depreciation, utilities, property taxes and maintenance) are allocated to the operating companies on a pro rata basis according to the actual hours charged by employees, as described above. The final component of charges relates to overhead. Overhead includes such items as pension and insurance premiums, legal and other fees for services rendered to the Service Company, taxes, general office supplies and interest. These overhead items are calculated each month and applied to the total charges made by employees of the Service Company.

54) Q. DO YOU CONSIDER THAT THE TOTAL CHARGES FOR THESE SERVICES ARE REASONABLE?

A. Yes. First, and, as previously noted, the services are rendered at cost, that is, there is no element of profit built into the charges by the Service Company. Second, the Service Company agreement provides for indirect charges to be spread over a much larger customer base than would be applicable if all charges were allocated to Massachusetts-American Water Company. The Company is also presenting an extensive analysis prepared by Baryenbruch and Company regarding the reasonableness of Service Company charges.

55) Q. IN ADDITION TO THE COST SAVINGS BENEFITS PREVIOUSLY MENTIONED, WHAT OTHER BENEFITS RESULT FROM THE SERVICE COMPANY STRUCTURE?

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A. The personnel employed by the Service Company are water supply professionals who possess considerable expertise in the area of water supply operations. These personnel are readily available to assist the operating companies in every area of operations. They are familiar both with water utility operations, in general, and with the specific operations of each plant in the Region. The Service Company also employs a functional committee structure which allows the exchange of information and ideas across the American System. For example, the Director of Accounting at the Service Company level meet twice yearly to discuss various problems and solutions encountered in the 23 states encompassing the American System. This information is then passed along to each operating plant. This functional committee concept extends to other areas such as engineering, water quality, loss control, data processing, community relations, finance, rates and revenue and corporate secretarial.

In the area of insurance coverage, the Service Company structure offers the economy of scale of purchasing insurance coverage for the entire American System. As part of the American System, each Company also participates in the benefits and economies of scale of mass purchasing contracts for such items as meters, pipes, valves, fittings, etc. Another benefit is that Service Company employees, because of their diverse experience in the water industry, represent a pool of talent from which supervisory or management positions can be filled at the local plant level. This helps reduce the cost associated with securing personnel to fill such vacancies as they arise.

In addition, details of monthly Service Company bills are reviewed by Mass-Am personnel who evaluate the reasonableness of charges as well as the distribution of services.

56) Q. WHAT CONTROLS EXIST FOR EMPLOYEE EXPENSES?

A. Travel and business expenses that are incurred in the performance of services for operating companies are reported on an expense statement, which must be prepared in accordance with explicit instructions and must be reviewed and approved by an appropriate Service Company official. Also, allocations and direct charges are reviewed prior to payment.

57) Q. HOW ARE SERVICE COMPANY BUDGETS CONTROLLED?

A. Each year, each office of the Service Company is required to develop a budget for the following year. This budget is reviewed and compared to the previous twelve months experience by the Service Company Board of Directors prior to approval. During the year, each significant variance from the budget must be explained and justified. A report is prepared monthly detailing budget versus actual performance of the various Service Company offices.

Certain budget guidelines are issued each year by the comptroller of the Service Company regarding various areas of budgeting for the future, such as for labor increases, group insurance, risk insurance, etc. These guidelines are then followed by each office in the preparation of the budget for the following year.

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The Service Company budget approval process includes:

1. Authorized work force comparing current and prior budget years.
2. Automobile lease budgets detailing each vehicle, its assignation, lessor, term of lease and lease payment amount.
3. Equipment lease (outside lessors) detailing each piece of equipment, department assignation, lessor, term of lease and lease payment amount.
4. Real estate lease budget detailing location of leased property, lessor, terms and monthly rental amounts.

Any revisions to the above are submitted at Service Company board meetings for approval by the Service Company Board of Directors.

All of this is done with the explicit goal providing the most professional, efficient services possible for the operating company at the lowest reasonable costs.

58) Q. WHAT INTERNAL CONTROLS EXIST FOR EXPENDITURES?

A. Several internal controls have already been discussed, such as employee expense and time accounting procedures and budget procedures. Additionally, there are procedures in place for the control of invoice approval and check authorization.

Each and every invoice processed must be checked for accuracy by the employee responsible for the purchase, then it must be approved by a Company official prior to payment. Also, every invoice is reviewed for proper Company assignment or allocation and appropriateness of payment prior to payment. Check authorizations also must be approved by a Company official. Expenditures not in the approved budget for the year must be approved by the Service Company Board of Directors.

Additionally, the AWWSC Internal Auditing Department periodically performs internal audits of the Service Company offices. Also, Price Waterhouse Coopers performs a preliminary audit every October and a final audit at the end of the year. These audits focus on internal controls as well as other areas of accounting.

59) Q. ARE MANAGEMENT AUDITS EVER PERFORMED ON THE SERVICE COMPANY?

A. In some states, regulatory requirements require that periodically, management audits are conducted by the state regulatory commission staff and consultants who specialize in these audits. These audits are designed to examine the practices and

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policies of the operating companies to determine whether the companies are operating efficiently and utilizing sound management practices. As part of these management audits, the arrangements and agreements between the operating companies and the Service Company are subjected to extensive scrutiny. These management audits, under the supervision of the regulatory commission, are designed to disclose operating areas that are efficient or inefficient, identify areas for improvements, or form recommendations for change. The Service Company personnel as management of the operating company have implemented recommendations resulting from management audits, and these recommendations help to assure that costs passed on to operating companies under the Service Company concept is fair and reasonable.

60) Q. HOW ARE SERVICE COMPANY BILLS ORGANIZED?

A. The adoption of the new Service Company contract in 1989 has enabled all charges other than overhead, to be identified and referenced to the original source document.

The detail bill for each water company has been divided into four sections:

1. Corporate - Details all charges originating from the Voorhees (General) office.

2. Region - Details all charges originating from the Northeast Region office in

Haddon Heights, New Jersey, the Marlton, New Jersey accounting center, as well as the limited local staff in Norwell, Massachusetts.

3. Laboratory - Details all charges originating from the Belleville, Illinois Laboratory.

4. Other:

Data Processing - Details all charges allocated from Haddon Heights, NJ.

Charges are listed by employee of the Service Company to the operating company and are readily identifiable and scrutinized by the operating company on a monthly basis. Items that do not originate from the employee's time or expense statements; i.e., vouchers, journal entries - are shown in a separate column entitled, "Vouchers/Journals" for each reporting function.

A separate "Voucher/Journal" report for each Company is provided with each detail bill. This report is divided into the same four sections as the detail bill. Each section lists the voucher or journal entry initiating the charge, the impress number (designates which voucher register lists the voucher), the general ledger account number charged, the functional department number, the distribution (work order or authorization number), the amount of each transaction for each company, and the payee.

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61) Q. DOES MASS-AM PAY ANY OF AMERICAN WATER WORKS CO., INC. (PARENT COMPANY) OPERATING COSTS?

A. No, it does not. No parent company costs are allocated to the subsidiary operating companies. In fact, the Service Company bills American Water Works and other non-operating companies bills for services that are provided on a monthly basis.

62) Q. PLEASE EXPLAIN THE ADJUSTMENT ON SCHEDULE 17.

A. The Company is making a pro forma adjustment to reflect Massachusetts-American's portion of allocated costs from the existing customer service call center in Port Chester, New York. Currently, no allocation is being made from the call center, as prior to 1999 Massachusetts-American had been providing reciprocal services in the form of accounts payable and payroll functions. In 1999, employees performing the A/P and payroll functions became service company employees, and as such, allocated their time to the five New England region companies that benefited from that service. In 2000, the functions themselves were moved from Mass-Am to the regional accounting group in New Jersey. Even though Mass-Am no longer provides the reciprocal services of A/P and Payroll functions to the other New England companies, they continue to receive the services from the New York call center free of charge. It is appropriate to now allocate the call center costs to the companies that benefit from the center.

63) Q. PLEASE DESCRIBE THE ADJUSTMENT ON SCHEDULE 18 ENTITLED "OFFICE LEASE".

A. This adjustment is being made to reflect the Company's local office move from 75 Sergeant Wm. B. Terry Drive in Hingham to 200 Cordwainer Drive in Norwell. The new office contains significantly less square footage than the old office in Hingham. Keith Bossung, the Company's VP/Mgr. is also the VP/Mgr. of Hampton Water Works Company in Hampton, New Hampshire and Salisbury Water Supply Company in Salisbury, MA. The pro forma level of expense contains only those costs attributable to Mass-Am (see workpaper), resulting in a decrease of \$22,097 from the test year level of expense.

64) Q. WHAT IS THE NATURE OF THE ADJUSTMENT REFLECTED ON SCHEDULE 19?

A. Schedule 19, "Water Conservation Devices" contains a proposed three-year amortization of costs to be incurred by the Company in 2001 associated with the distribution of water conservation devices in the Company's service territory. This is part of the Company's ongoing conservation efforts, consistent with the directives of the DEP. Please refer to the pre-filed testimony of Steven Tambini and also the workpaper associated with this adjustment.

65) Q. WHAT IS THE NATURE OF THE ADJUSTMENT ON SCHEDULE 22?

A. Schedule 22, "Depreciation Expense" is the product of the depreciation study performed in this rate case by the firm of Gannett Fleming. (See testimony and exhibits of

John J. Spanos.) The Company has included depreciation on the net post-test year additions for pro forma purposes. The Company has also deducted from its pro forma

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Level of expense the depreciation on contributed property.

66) Q. PLEASE DESCRIBE THE ADJUSTMENT ON SCHEDULE 23, "AMORTIZATION".

A. The Company is making this adjustment to eliminate from the test year a 60-month amortization of a deferred tax balance that had been reflected on the Company's balance sheet. The amortization ends in December 2000.

67) Q. PLEASE DETAIL THE ADJUSTMENT FOR PROPERTY TAXES ON SCHEDULE 24.

A. Schedule 24 reflects the actual assessments and mil rates associated with the Company's taxable property based on current tax bills. To this total was added property tax associated with the Company's net pro forma plant additions. As new tax bills reflecting revised assessments and mil rates are due in December 2000 or January 2001, the Company will be revising this exhibit accordingly.

68) Q. PLEASE DESCRIBE THE ADJUSTMENT FOR STATE FRANCHISE TAX.

A. This schedule sets forth the adjustment for State Franchise Tax calculated on the pro forma taxable income under present and proposed rates. Under present rates no State Franchise Tax would be due.

69) Q. PLEASE EXPLAIN SCHEDULE 27, "FEDERAL INCOME TAX."

A. This exhibit sets forth the calculation of Federal Income Taxes based on pro forma taxable income under present and proposed rates, at the 35% current corporate tax rate. Under present rates there would be no federal income tax liability.

70) Q. WHAT IS THE NATURE OF THE ADJUSTMENT ON SCHEDULE 28?

A. Schedule 28 calculates the Company's deferred income taxes based on current income tax depreciation and pro forma book depreciation. A combined rate that encompasses both State and Federal deferred taxes is used.

71) Q. PLEASE DESCRIBE THE ADJUSTMENT ON EXHIBIT 3, SCHEDULE 1.

A. Exhibit 3, Schedule 1, "Treatment Plant Operating Lease" reflects the annual lease cost associated with the operation of the Hingham Water Treatment Plant. The pro forma cost reflects the 2001 percentage rent lease amount as provided by the Company's consultant in the last rate case. Test year system delivery has been used for pro forma purposes. While the facility lease agreement incorporates a provision for a "true-up" of the percentage base amounts paid to Massachusetts Capital Resources Company, none is included in this adjustment as the five-year period for this calculation will not be completed until 2001. It is expected that any true-up amounts will be made a part of this proceeding before the conclusion, as the data becomes known and measurable. In addition, because treatment plant costs must be kept separate from the base tariff rates of the Company, an allowance for the revenue requirement effect of cash working capital associated with this expense has been calculated. In this fashion, treatment plant costs are not affecting rate base

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or income tax associated with the rest of the Company's operation.

72) Q. PLEASE DESCRIBE THE ADJUSTMENT ON EXHIBIT 3, SCHEDULE 2 ENTITLED "TREATMENT PLANT OPERATING COSTS."

A. Schedule 2 highlights the operating costs solely associated with the treatment plant. These costs are amounts that are separate from those costs reflected in the base case itself for the same items. Workpapers which reflect the methodology utilized in calculating the amounts shown on Schedule 2 are included in the workpapers section of this filing. As is the case for property taxes associated with the non-treatment plant portion of the revenue requirement, it is expected that taxes will be updated when bills are received late this year or early next year. The Company would also update its power and heating costs for known and measurable changes as the evidentiary process moves forward, given the current volatile nature of these costs. Currently, the Company has made no adjustment to its power cost and a modest 14% adjustment to heating costs to reflect the increase in that expense from August to October 2000. Further increases are expected.

Once again, treatment plant lease and operating costs are being apportioned only to the users of the HWTP, the customers of Hingham, Hull, Cohasset and Norwell (Service Area A).

73) Q. WHAT IS THE NATURE OF THE ADJUSTMENT ON EXHIBIT 4, SCHEDULE 5?

A. Exhibit 4, Schedule 5 reflects the Company's adjustment to present rates for the effect of conservation based rates as filed in this case. As the DTE is aware, the settlement agreement with the DEP states that the Company will file with the DTE by the end of 2000 for a rate structure that essentially eliminates the declining block rates and proposes a structure incorporating either a flat or inclining block rate structure. The Company is advocating a single rate block for all volumetric usages (varying by class of customers). As a result, Exhibit 4, Schedule 5 reflects an adjustment to residential and commercial usage based on the expected (and desired) effect on sales of the elimination of the declining rate blocks in the tariff structure.

The adjustment was calculated by deriving a baseline quarterly usage level, which encompasses the months of December, January and February. In other words, months with little or no outside usage. Total usage for the test year was used to compare that level of usage with four times the quarterly baseline usage to arrive at a test year usage level that would be impacted by the implementation of conservation rates. A factor of 5% of excess over baseline usage was used as the expected shortfall in sales attributable to the elimination of the declining rate block structure. This level was used as a result of a Water Conservation Implementation Plan that was performed on behalf of the Company in May 2000. The plan identifies expected savings from conservation pricing of between 2-8% of outdoor use. (See excerpt from study in workpapers.) The Company has used the mid-point of that range, or 5% in its adjustment. Only residential and commercial use was adjusted, as those classes of customers are more readily identifiable with respect to conservation impacts. The result is an expected decrease in sales of 9.738MG in the residential rate class resulting in a loss of revenue of \$37,805. Regarding the commercial class, the expected decrease is .664 MG, which translates to a revenue shortfall of \$2,508.

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Average cost per thousand gallons by revenue class was used in the calculation. The overall revenue shortfall as a result of the implementation of conservation rates of approximately \$40,000 represents .03% (one-third of one percent) of the total test year revenue level, certainly a modest forecast with respect to the anticipated decrease in sales expected as a result of the implementation of conservation rates. If there was no expected decrease in sales, it would follow that there is no reason to implement conservation rates.

74) Q. PLEASE EXPLAIN THE SCHEDULE MARKED AS EXHIBIT 5, SCHEDULE 1, "RATE BASE AND RATES OF RETURN."

A. This exhibit shows the Company's original cost rate base as of June 30, 2000. Deductions have been made from the Company's fixed capital account for depreciation and non-Company sources of capital such as Customer Advances and CIAC. Additions have been made for investments made by the Company for cash working capital, materials and supplies and significant utility plant items that will be completed after the end of the test year. (See testimony of Keith Bossung for detailed support.)

Schedule 1 also sets forth the pro forma return on rate base at present and proposed rates. The return at proposed rates is in accordance with the cost of capital as computed on Exhibit 6, Schedule 1.

75) Q. WHAT IS THE SOURCE FOR THE DEPRECIATION RESERVE AND CONTRIBUTIONS IN AID OF CONSTRUCTION AMOUNTS, WHICH YOU HAVE USED IN THE CALCULATION OF RATE BASE AS SHOWN ON SCHEDULE 1?

A. Those amounts are the book amounts as shown on Exhibit 1, Schedule 1 of these exhibits.

76) Q. IS THIS CONSISTENT WITH THE DEPARTMENT'S PAST ORDERS REGARDING THIS COMPANY?

A. Yes, it is. In calculating the rate base on which the Company may earn a return, both the Depreciation Reserve and the Contributions in Aid of Construction, or CIAC, are deducted from the Company's total plant in service. Another option regarding depreciation on CIAC is to decrease the Depreciation Reserve by the accumulated portion attributable to CIAC, while increasing CIAC itself by a like amount.

The purpose of this adjustment is to remove from the Depreciation Reserve the accumulated amortization of CIAC, as booked by the Company in accordance with the NARUC system of accounts. This adjustment has no effect on the rate base and no effect on the ratepayers. The Company's position is that it is not necessary for ratemaking purposes.

77) Q. PLEASE EXPLAIN EXHIBIT 6, SCHEDULE 1, "CAPITAL STRUCTURE AND COST OF

CAPITAL. "

A. This exhibit sets forth the capitalization of the Company and the calculation of the weighted cost of capital. The cost rate shown in the fifth column is the effective annual cost of each capital item. The cost of debt and the cost of preferred stock are based on the applicable interest and dividend rates, respectively, plus the effect of issuance costs. The Company requests that the cost of common equity be based on the Department's optional cost of equity regulations, as found in 220 CMR 31. The result is shown on Exhibit 5, Schedule 1.

78) Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.